

Energy Research

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## Oily Morning Thoughts: RPT LN, MMT CN

### Oil & Gas Analysts

**Richard Savage**  
+44 (0) 20 7866 0098  
richard.savage@mirabaud.co.uk

**Tim Hurst-Brown**  
+44 (0) 20 7866 0092  
tim.hurst.brown@mirabaud.co.uk

### Oil & Gas Analysts

**Alex Wood**  
+44 (0) 20 7866 0200  
alex.wood@mirabaud.co.uk

**Richard Morgan**  
+44 (0) 20 7866 0201  
richard.morgan@mirabaud.co.uk

### Oil & Gas Sales

**Pav Sanghera**  
+44 (0) 20 7878 3380  
pav.sanghera@mirabaud.co.uk

**Harry Baker**  
+44 (0) 20 7878 3401  
harry.baker@mirabaud.co.uk

### Natural Resources Sales

**James Leahy**  
+44 (0) 20 7878 3410  
james.leahy@mirabaud.co.uk

**Jonathan Colvile**  
+44 (0) 20 7866 0085  
jonathan.colvile@mirabaud.co.uk

**Nick Orgill**  
+44 (0) 20 7878 4172  
nick.orgill@mirabaud.co.uk

### Sales Trading

**Lucas McHugh**  
+44 (0) 20 7866 0085  
lucas.mchugh@mirabaud.co.uk

### **Regal Petroleum (RPT LN): initial results from RBN-4 in Romania look encouraging**

**Event:** RBN-4 encounters gas pay in Sarmatian target

- Following hot on the heels of its success in Egypt, Regal now looks to have made a discovery in Romania. The RBN-4 well on Regal's 100% owned Barlad licence in Romania has reached TD (973 meters). Based on log analysis, the well encountered 11 meters of net gas pay over three sandstone intervals in the main target (Sarmatian formation). In addition to this, several gas bearing siltstone intervals totalling 14 metres were also identified at a level known to be productive in the nearby Roman gas field.
- RBN-4 will now be suspended, pending the arrival of a lower cost, work-over rig to carry out testing operations, which are expected to commence before the end of the year. Meanwhile, the rig currently on location will be moved to spud the second exploration well on the Barlad block, RBN-3, located some 5 km to the northwest.

**Positive impact:** 10p upgrade to risked exploration value

The pay zone discovered in the Sarmatian formation suggests that RBN-4 is a decent discovery, and it supports our optimistic pre-drill estimate of 40 bcf of gas recoverable, however, until the well has been flow tested, it is too early to classify this as a commercial discovery.

We previously had a risked exploration value of 9p per share on the RBN-4 prospect, however, this looks conservative in light of yesterday's results. To this end, we have upgraded our "chance of success" to 75% (from 33%), lifting our risked exploration value on RBN-4 by 10p to 19p per share.

Our core valuation of 280p per share remains unchanged and is the basis behind our BUY recommendation and 275p price target. In addition to this, we now value Regal's overall risked exploration upside at 46p, up from 35p on the back of the RBN-4 results. The next well on Barlad, RBN-3, is another small Sarmatian gas target worth 16p on a risked basis, assuming a 33% chance of success.

### **Mart Resources (MMT CN): Umusadege update and new COO**

**Event:** Mart Resources updated the market yesterday on progress at Umusadege and announced the appointment of Jay Scott as COO.

- First production from UMU-1 looks set to commence before the year end, with completion equipment expected onsite shortly. Alongside this, the production facility design has been completed and the equipment required for early production has been contracted. Once production has commenced, Mart plans to drill a twin well to UMU-1, in order to test the shallower pay zones which could not be tested in UMU-1.
- In tandem with the completion work on UMU-1, Mart is currently mobilizing equipment to the suspended UMU-N2 well site to prepare for an extended production test. UMU-N2 was drilled by Elf and flowed at a rate of 1,673 bopd from the same zone that Mart



intends to produce from.

- The production and gathering facilities required for the three well development of the Umusadege field are low cost and relatively simple. The plan includes the construction of a central production facility, installation of quality and volume measurement equipment, and a manifold system. The field will be tied into the recently constructed oil pipeline that runs through the block on route to an Agip pumping station 15km away.
- The appointment of Jay Scott as COO beefs up Mart's executive management team. Mr Scott has over 30 years of industry experience, including stints with Gulf Canada, Aquitaine Canada and BP Canada, and more recently some of the small cap E&P's such as Arawak and Petrolatina.

**View: positive stance on the shares**

We do not yet have formal coverage of Mart Resources, but we have a positive stance on the stock based on early production from Umusadege which we estimate will average over 4,000 bopd in 2008. Given the low cost of developing the field (US\$19m) and current high oil price, this makes for attractive economics. Our analysis indicates that the field could throw off almost US\$40m of FCF in 2008.



## RECOMMENDATIONS HISTORY

### RPT LN

Market index	FTSE AIM O&G				
Date		Market Index level	Stock Price (p)	Target Price (p)	Opinion
15 <sup>th</sup> May, 2007		5162.49	162p	275p	BUY
25 <sup>th</sup> June, 2007		5470.78	225p	275p	BUY
14 <sup>th</sup> Sept, 2007		5323.25	214p	275p	BUY
26 <sup>th</sup> Sept, 2007		5390.49	180p	275p	BUY
30 <sup>th</sup> Oct, 2007		5784.50	178p	275p	BUY

### MMT CN

Market index	FTSE AIM O&G				
Date		Market Index level	Stock Price (C\$)	Target Price (p)	Opinion
30 <sup>th</sup> Oct, 2007		5784.50	C\$0.47	N/R	N/R

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- OVERWEIGHT:** The stock is expected to generate absolute positive price performance of 10-20% during the next 12 months
- NEUTRAL:** The stock is expected to generate absolute price performance of between 10% positive and 10% negative during the next 12 months.
- UNDERWEIGHT:** The stock is expected to generate absolute negative price performance of 10-20% during the next 12 months
- SELL:** The stock is expected to generate absolute negative price performance of over 20% during the next 12 months.
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